

Message Text

CONFIDENTIAL

PAGE 01 VIENTI 00366 01 OF 02 120817Z

11

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 IGA-02 CIAE-00 DODE-00

PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

SP-02 SS-15 USIA-06 EB-07 CIEP-01 TRSE-00 STR-04

OMB-01 CEA-01 XMB-02 FRB-03 /094 W

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R 120550Z FEB 76

FM AMEMBASSY VIENTIANE

TO SECSTATE WASHDC 6070

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

CINCPAC

C O N F I D E N T I A L SECTION 1 OF 2 VIENTIANE 0366

DEPT ALSO PASS AID

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: EFIN, EAID, LA

SUBJECT: FEOF: ISSUES CONCERNING TERMINATION

REF: A. STATE 032861 (102327Z FEB 76), B. VIENTIANE 0321
(070425Z FEB 76)

SUMMARY. FEOF DONOR ADVISORY BOARD NET FEBRUARY 11 TO
DISCUSS NUMEROUS ISSUES HAVING TO DO WITH TERMINATION
OF THE FUND. ALL REPRESENTATIVES EXCEPT THE JAPANESE
AGREED THAT THE FUND COULD AND SHOULD GO OUT OF EXISTENCE
ON MARCH 31. JAPANESE REP MAINTAINED, HOWEVER, THAT
CABINET-LEVEL ACTION WOULD BE REQUIRED, PARTICULARLY
ON DISPOSITION OF GOJ'S KIP AND DOLLAR BALANCES, AND
CONFIDENTIAL

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PAGE 02 VIENTI 00366 01 OF 02 120817Z

TAHT SUCH ACTION COULD NOT BE ACCOMPLISHED BY END OF

MARCH. END SUMMARY.

1. FEOF DONOR ADVISORY BOARD (DAB) MET ON FEBRUARY 11 FOR FIRST TIME IN THREE MONTHS. BRITISH REP, AS CHAIRMAN FOR FEBRUARY, PRESIDED. ALL OTHER FOREIGN DONOR-REPRESENTATIVES AND THE FEOF MANAGER WERE PRESENT, BUT LAO REP DID NOT SHOW OR SEND ANY EXCUSE OR EXPLANATION FOR HIS ABSENCE. MAIN TOPICS OF DISCUSSION WERE THE FOLLOWING:

2. DISPOSITION OF KIP BALANCES (REF B): WITH REGARD TO HIS CALCULATIONS OF PRE-1975 KIP BALANCES, MANAGER EXPLAINED THAT FOR PERIOD FROM INCEPTION THROUGH ABOUT 1970 HE HAD USED FIGURES THAT WERE MAINTAINED (UNTIL SPRING, 1975) BY JAMES I. ELLIOTT, RESIDENT AUDITOR OF THE FORMER USAID/LAOS. MANAGER HAS ONLY THOSE FIGURES AND FEOF'S OWN ACCOUNT BOOKS, NO MINUTES OR CORRESPONDENCE. IN GENERAL, HE DERIVED KIP FIGURES FOR AUSTRALIA, JAPAN AND U.K. FROM EXCHANGE RATES PREVAILING ON DATES OF THOSE COUNTRIES' DEPOSITS (482 AND 487 TO THE DOLLAR AT VARIOUS TIMES IN 1964, 49- AND 497 IN 1965, ETC.) AND THEN SUBTRACTED FIGURES FOR THOSE THREE COUNTRIES FROM THE TOTAL. THE REMAINDER OF 1.179 BILLION KIP HE ASSUMED TO BE ATTRIBUTABLE TO U.S. CONTRIBUTIONS. (THIS INFORMATION RESPONDS TO QUERY IN REF A. WE HAVE NO BASIS FOR JUDGING VALIDITY OF THESE CALCULATIONS AND SUGGEST WASHINGTON AGENCIES CONTACT ELLIOTT IF THEY REQUIRE FURTHER INFORMATION.) IT APPEARS THAT LAO IN EARLY 1975 ASKED FOR AND WERE GRANTED ACCUMULATED KIP FROM 1971-74 PERIOD BUT NEVER ASKED FOR KIP FROM EARLIER YEARS AND MAY NOT HAVE KNOWN OF ITS EXISTENCE.

3. INFORMAL POLL OF DONOR REPS INDICATED THAT JAPANESE, LIKE U.S., WERE AWAITING INSTRUCTIONS ON QUESTION OF KIP BALANCE. SO WERE AUSTRALIANS, ALTHOUGH THEIR REP HAD NO DOUBT THAT GOA WOULD AUTHORIZE TURN-OVER OF 1964-73 KIP BALANCE TO LAO TREASURY. BRITISH REP SEEMED TO THINK HMG WOULD TAKE SIMILAR POSITION WHEN HE ASKED FOR INSTRUCTIONS.

CONFIDENTIAL

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PAGE 03 VIENTI 00366 01 OF 02 120817Z

4. WITH RESPECT TO U.S. 1975 KIP BALANCE OF 3,352,281,107 (REF B, PARA 3), MANAGER SAID HE WOULD NEED LETTER FROM EMBASSY AUTHORIZING TRANSFER TO LAO TREASURY.

5. FEOF RESERVES: MANAGER NOTED THAT, AFTER MAJOR SALE OF FX LATER IN DAY, FEOF RESERVES WOULD STAND AT \$1.2 MILLION AND COULD ONLY DECLINE FROM THAT POINT AT AN UNPREDICTABLE RATE, UNLESS THERE WERE TO BE A SECOND-

HALF CY 75 CONTRIBUTION FROM THE FRENCH (\$1.150 MILLION). FRENCH REP THEN STATED THAT THREE MONTHS AGO GOF HAD, BY PRESIDENTIAL ORDER, SUSPENDED ALL TYPES OF CREDIT TO LAOS. GOF HAD RECENTLY PROPOSED TO PDRL THAT THEY HOLD DISCUSSIONS ON THIS SUBJECT, PREFERABLY IN PARIS, DURING FIRST HALF OF MARCH, BUT HAD NOT YET RECEIVED REPLY. HE SAID FRENCH PRESIDENT'S POSITION WAS FIRM, AND HE ANTICIPATED THAT TALKS WITH LAO WOULD BE DIFFICULT. HE THOUGHT, HOWEVER, THAT SHOULD GOF ULTIMATELY DECIDE TO GRANT LAOS THE OUTSTANDING AMOUNT OF \$1.150 MILLION, THE MONEY WOULD BE TREATED AS BILATERAL ECONOMIC ASSISTANCE OUTSIDE FRAMEWORK OF FEOF AND THAT TERMINATION OF FEOF NEED NOT BE DELAYED PENDING OUTCOME OF FRENCH-LAO TALKS. (MANAGER SUGGESTED ALTERNATIVE: FEOF, AS IT WENT OUT OF BUSINESS, COULD LEAVE BEHIND A SEPARATE ACCOUNT AT BANQUE NATIONALE DU LAOS CONTAINING ENOUGH COUNTERPART KIP TO COVER FRENCH CONTRIBUTION WHEN ULTIMATELY DEPOSITED.)

6. FEOF DOLLAR PROFIT-AND-LOSS ACCOUNT: MANAGER NOTED THAT DISPOSITION OF FUNDS REMAINING IN THIS ACCOUNT WOULD ALSO HAVE TO BE SETTLED. CURRENT BALANCE IS \$170,000, AND MANAGER ANTICIPATES BALANCE WILL BE ABOUT \$150,000 AS OF MARCH 31. CHAIRMAN SAID IT APPEARED LOGICAL TO HIM THAT THIS SUM BE TURNED OVER TO LAO TREASURY.

7. PHYSICAL ASSETS: MANAGER SUBMITTED LIST OF FEOF'S PROPERTY, WHICH INCLUDES TWO OLD VEHICLES, SOME OFFICE EQUIPMENT, AND SOME FURNITURE AT MANAGER'S RESIDENCE. MANAGER OBSERVED THAT THIS PROPERTY HAS LITTLE COMMERCIAL VALUE BUT THAT HE NEVERTHELESS HAD HAD TO ARGUE

CONFIDENTIAL

PAGE 04 VIENTI 00366 01 OF 02 120817Z

FOR THREE DAYS TO GET IT REMOVED FROM NEW INVENTORY OF BANQUE NATIONALE'S PROPERTY WHICH PATHET LAO COMPILED WHEN THEY TOOK OVER BANKS LAST SEPTEMBER. THERE WAS GENERAL AGREEMENT THAT THESE ASSETS SHOULD ALSO GO TO THE LAO (AND THAT INDEED THERE WAS NO ALTERNATIVE).

8. SEVERANCE PAY FOR LOCAL STAFF: THERE WAS QUICK AGREEMENT THAT FEOF'S FOUR LOCAL EMPLOYEES SHOULD RECEIVE SEVERANCE PAY AT RATE OF ONE MONTH'S SALARY FOR EACH YEAR OF SERVICE, WHICH IS THE RATE ESTABLISHED BY EXISTING LABOR CODE.

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PAGE 01 VIENTI 00366 02 OF 02 120828Z

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INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

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C O N F I D E N T I A L SECTION 2 OF 2 VIENTIANE 0366

9. MANAGER'S CONTRACT (DISCUSSED AFTER HE HAD LEFT MEETING); HUNT'S CONTRACT WAS EXTENDED IN NOVEMBER BY INFORMAL AGREEMENT BECAUSE THERE WAS STILL MONEY IN THE FUND AND NOW RUNS UNTIL MARCH 31, 1976. HE IS PREPARED TO LEAVE ON THAT DATE. APART FROM PAID LEAVE OF SLIGHTLY MORE THAN THREE MONTHS TO WHICH HIS CONTRACT ENTITLES HIM, HE HAS ASKED FOR A SEVERANCE PAYMENT OF THREE MONTHS' SALARY. IN THIS CONNECTION HE CITED HIS INABILITY SO FAR TO OBTAIN OTHER EMPLOYMENT AND THE DIFFICULTY OF JOB-SEEKING FROM VIENTIANE. DONOR REPS AGREED THAT THIS WAS A REASONABLE REQUEST, SINCE SEVERANCE WOULD BE AT SAME RATE AS THAT ACCORDED TO LAO STAFF. HUNT'S ANNUAL SALARY IS \$18,000, SO HIS LEAVE AND SEVERANCE PAYMENTS COMBINED WILL AMOUNT TO SLIGHTLY MORE THAN \$9,000.

10. TERMINATION IN GENERAL: INTERWOVEN WITH DISCUSSION OF HUNT'S CONTRACT AND OF ALL PREVIOUS AGENDA
CONFIDENTIAL

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PAGE 02 VIENTI 00366 02 OF 02 120828Z

ITEMS WAS ISSUE OF MODALITIES OF TERMINATION AS A WHOLE. IN THIS REGARD ALL DONOR REPS EXCEPT THE JAPANESE AGREED THERE WAS NO POINT IN RETAINING HUNT'S SERVICES BEYOND MARCH 31 SINCE HE WOULD HAVE ONLY A SMALL AND DECLINING FUND TO ADMINISTER--OR PERHAPS NO MONEY AT ALL. BANQUE NATIONALE COULD APPOINT A LAO OFFICIAL TO ADMINISTER WHATEVER MIGHT REMAIN. SIMILARLY, ALL EXCEPT JAPANESE REP AGREED IT WOULD BE PREFERABLE TO TERMINATE FEOF AS A WHOLE ON MARCH 31. MAJORITY OF DAB THOUGHT SIMPLEST MEANS OF DOING SO WOULD PROBABLY BE DIPLOMATIC NOTE FROM EMBASSY OF CHAIRMAN-OF-MONTH TOLAO MINISTRY OF FOREIGN AFFAIRS; THIS WOULD BE PREFERABLE TO AN EXCHANGE OF LETTERS, WHOSE CONTENT WOULD HAVE TO BE AGREED TO BY THE LAO.

11. JAPANESE POSITION: JAPANESE REP (NOW A SECOND SECRETARY NAMED AMANO) TOOK DECIDEDLY DIFFERENT VIEW THROUGHTOUT MEETING. WITH REPEATED REFERENCES TO "LE PLAN JURIDIQUE," HE STATED THE INTERPRETATION THAT FEOF COULD BE TERMINATED ONLY WHEN ITS RESERVES WERE TOTALLY EXHAUSTED OR BY SPECIFIC WRITTEN AGREEMENT AMONG ALL PARTIES. HE WENT ON TO STATE THAT WHILE HIS FOREIGN MINISTRY ALONE MIGHT BE ABLE TO APPROVE TERMINATION, CABINET WOULD HAVE TO CONSIDER DISPOSITION OF JAPAN'S KIP (7.7 BILLION) AND DOLLAR BALANCES. CABINET WOULD PROBABLY ALSO HAVE TO APPROVE "THE NEW AGREEMENT" ON TERMINATION THAT JAPANESE REP, AT LEAST, CONSIDERED NECESSARY. CABINET ACTION WOULD NOT BE EXPECTED IN THE SEVEN WEEKS REMAINING BEFORE MARCH 31.

12. OTHER REPS, NOTABLY CHAIRMAN, ATTEMPTED TO SWAY AMANO FROM THIS POSTION, BUT WITHOUT SUCCESS. WITH SOME IRRITATION, CHAIRMAN POINTED OUT THAT GOJ, LIKE ALL DONOR GOVERNMENTS, HAD HAD THREE MONTHS SINCE LAST DAB MEETING (75 VIENTIANE 6278, NOTAL) TO CONSIDER MODALITIES OF TERMINATION, AND MOST DONOR-COUNTRY EMBASSIES -- HIS OWN ABOVE ALL -- NO LONGER HAD SUFFICIENT STAFF TO SPEND TIME ON LEGALISTIC DISCUSSION OF HOW A MORIBUND ORGANIZATION SHOULD BE TERMINATED. IN THE END, AMANO EVEN RESERVED HIS POSITION ON ALLOWING MANAGER'S CONTRACT TO EXPIRE MARCH 31 UNTIL HE COULD

CONFIDENTIAL

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PAGE 03 VIENTI 00366 02 OF 02 120828Z

CONSULT LOCALLY WITH HIS SUPERIORS. (HE LATER INFORMED CHAIRMAN HIS EMBASSY BELIEVES HUNT SHOULD REMAIN AS MANAGER UNTIL FEOF'S MONEY RUNS OUT.)

13. AT CONCLUSION, CHAIRMAN REMINDED DAB THAT HE

WOULD DEPART ON "LONG LEAVE" FEBRUARY 27 AND SAID HIS ORIGINAL HOPE OF IRONING OUT TERMINATION PROCEDURES BEFORE DEPARTURE NOW APPEARED ILLUSORY. (CHAIRMANSHIP WILL ROTATE TO U.S. IN MARCH.)

14. COMMENT: WE STILL NEED THE INSTRUCTIONS REQUESTED IN REF B ON DISPOSITION OF OUR KIP BALANCE AND NEED INSTRUCTIONS ALSO ON OTHER ASPECTS OF TERMINATION RAISED IN THIS MESSAGE. WE TRUST DEPARTMENT AND AID WILL TAKE A VIEW OF THESE QUESTIONS THAT IS AS RELAXED AS THAT OF AUSTRALIANS AND BRITISH OR AS INDIFFERENT AS THAT OF THE FRENCH, PARTICULARLY IF IT IS DETERMINED THAT WE HAVE NO REAL ALTERNATIVE TO CONSENTING TO TRANSFER TO LAO TREASURY OF OUR 1964-1973 KIP BALANCE AND OUR SHARE OF THE ULTIMATE DOLLAR BALANCE FROM PROFIT-AND-LOSS ACCOUNT. (WE GATHER THERE IS NO QUESTION BUT THAT U.S. 1975 KIP BALANCE GOES TO THE LAO.)

15. FROM DISCUSSION FEBRUARY 9 WITH HEAD OF NEW BANK OF FOREIGN TRADE (VIENTIANE 0344, NOTAL), WE BELIEVE THE STATUS OF USDO BANK ACCOUNTS IS NOW RESOLVED AND THUS SEE NO REASON FOR ATTEMPTING TO LINK OUR ACTION ON FEOF BALANCES TO THE BANKING SITUATION, EVEN IF OUR FEOF COMMITMENTS WOULD PERMIT US TO DO SO.
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